

AUG 31 1983

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The information submitted discloses that you were incorporated [REDACTED], under the nonprofit corporation laws of the State of [REDACTED]. Your purposes as stated in the Articles of Incorporation are as follows:

- 1) practicing and teaching arts and crafts;
- 2) providing an outlet for artists to exhibit and merchandise their works; and
- 3) providing a contribution to the advancement of visual arts within the community of [REDACTED] and the State of [REDACTED].

Membership in your organization is limited to [REDACTED] members and consists of only one class. The criteria used for election to membership as stated in Article V of your bylaws is as follows:

- a) The candidate for membership shall be actively engaged in one or more of the generally recognized visual arts.
- b) The work must be of professional quality, original creations of the candidate and conform to the artistic tastes and social mores of the community as determined by the members of The Corporation.

Upon election to membership, a member signs an agreement to pay the initial membership dues or other dues and fees as prescribed or may be prescribed in the bylaws.

Each member must be available for a proportionate number of hours to conduct gallery operations and assist in the upkeep of gallery facilities. Each member is obligated to assist the directors/officers as needed in administrative and management activities and serve as director/officer if so elected.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
		[REDACTED]					
Surname		[REDACTED]					
Date		8-31-83					

Each anniversary of the membership agreement, the member issues The Corporation a certificate or certificates of credit which shall be redeemable in the dollar amount indicated thereon as a credit toward the purchase of any piece of art offered for sale by The Corporation.

Funds for the support of your activities are derived from dues and assessments of members, the sale of arts works, and contributions.

Section 1.501(c)(3)-1 of the regulations provides, in part, as follows:

"(a)(1) In order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such sections. If an organization fails to meet either the organizational test or the operational test, it is not exempt."

"(a)(2) The term "exempt purpose or purposes," as used in this section, means any purpose or purposes specified in section 501(c)(3), as defined and elaborated in paragraph (d) of this section."

"(b)(1)(i) An organization is organized exclusively for one or more exempt purposes only if its articles of organization (referred to in this section as its "articles") as defined in subparagraph (2) of this paragraph:

(a) Limit the purposes of such organization to one or more exempt purposes; and

(b) Do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes."

"(d)(1)(ii) An organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (1) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests."

Revenue Ruling 71-25, holds that a cooperative art gallery formed and operated by a group of artists for the purpose of exhibiting and selling their works does not qualify for exemption under section 501(c)(3) of the Code.

Revenue Ruling 76-152, holds that an organization formed by art patrons to promote community understanding of modern art trends by selecting for exhibit, exhibiting, and selling art works of local artists, retaining a commission on sales less than customary commercial charges and not sufficient to cover the cost of operating the gallery, does not qualify for exemption under section 501(c)(3) of the Code.

Since the purpose of your organization, as described in your Articles of Incorporation, is broader than the purposes specified in section 501(c)(3) and since there is no provision for the distribution of assets in the event of dissolution, you do not meet the organizational test described in the Code and Regulations.

With respect to your activities, like the organizations in the revenue rulings described above you are engaged in showing and selling primarily the works of your members and other artists; therefore, your organization may serve as a vehicle for advancing their careers and promoting the sale of art work. You are serving the private purpose of your members and other artists, even though the exhibition and sale of paintings may be an educational activity in other respects. You are neither organized or operated exclusively for one or more purposes specified in section 501(c)(3) of the Code.

Accordingly, it is held that you do not qualify for exemption from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code and are required to file income tax returns on Form 1120. Contributions to you are not deductible under section 170 of the Code.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this letter, this proposed determination will become final.


If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree

under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If this determination letter becomes a final determination, we will notify the appropriate State Officials, as required by section 6104(c) of the Code, that based on the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3).

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,


District Director

Enclosures:
Form 6016
Publication 892